

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Tanque Verde Unified School District No. 13**

Year Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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## Accounting Services Division Staff

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**Gregory Rickert**, Manager and Contact Person  
grickert@azauditor.gov

**Cris Cable**  
**Elizabeth Vore**

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

December 9, 2008

Governing Board  
Tanque Verde Unified School District No. 13  
11150 East Tanque Verde Road  
Tucson, AZ 85749-8524

Members of the Board:

We have reviewed the District's audit reports and *Uniform System of Financial Records* (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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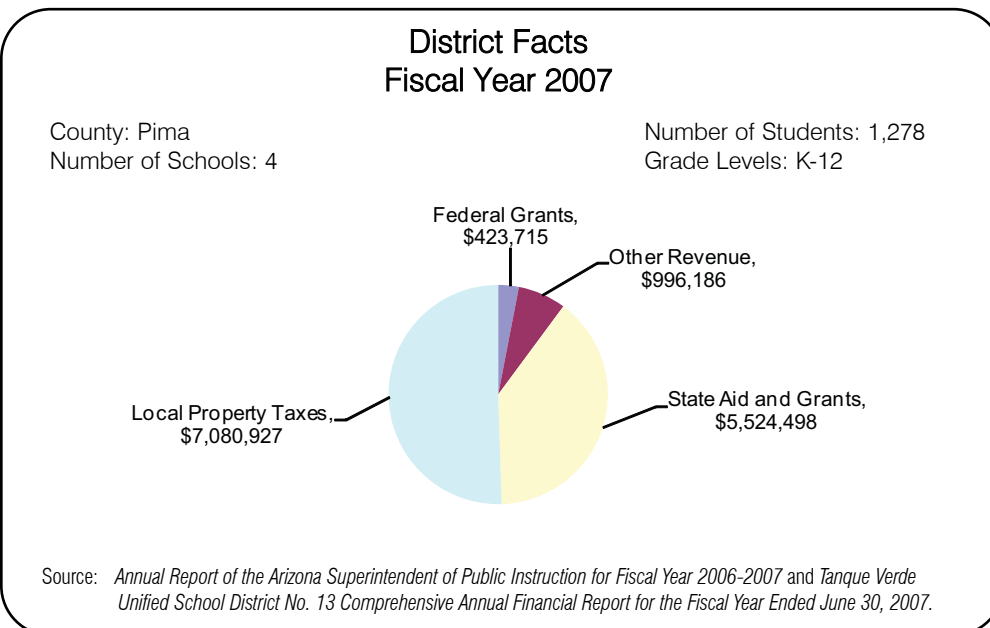


# INTRODUCTION

Tanque Verde Unified School District No. 13 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$14 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# FINDING 1

## The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. It is also essential that the District follow procedures designed to help ensure that its purchases are approved before committing district monies and adequately supported before payment is made.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

However, the District did not have adequate controls over competitive purchasing and expenditures. Specifically, the District did not always obtain oral or written price quotations for purchases that required them or retain documentation that valid state contracts were used for the purchases. In addition, the District did not always retain the written determination of why a vendor was considered a sole source, and did not always ensure that sole source purchases were approved by the Governing Board. Further, the District did not always retain documentation to support that due-diligence procedures were performed for a sample of purchases made through each purchasing cooperative. Finally, the District did not always prepare purchase orders before services were ordered and receive or retain supporting documentation for purchases.

## Recommendations

To help strengthen controls over competitive purchasing and expenditures, the District should:

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Obtain oral price quotations from three or more vendors for purchases costing between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases costing between \$15,000 and \$33,689.
- Review documentation for at least a sample of the contracts that the District wishes to use from each purchasing cooperative, and document the due-diligence procedures performed.
- Retain documentation supporting the proper use of state contracts or other cooperative purchasing contracts and any related due-diligence procedures performed before using such contracts.
- Retain written documentation of the Governing Board's determination that there is only one vendor from which to purchase a required material, service, or construction item. Sole source procurements should be avoided, except when no reasonable alternative source exists.

- Prepare and approve purchase orders for all goods and services, other than those specifically exempted in the USFR, prior to ordering them.
- Retain supporting documentation including vendor invoices or receipts for all purchases.



# FINDING 2

## The District should improve its controls over capital assets, equipment, and supplies

The District did not accurately account for or control its capital assets and stewardship items.

The District has invested a significant amount of money in its capital assets and stewardship items. In order to protect its investment, the District should have accurate lists of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. For example, the capital assets list included duplicate assets and items that did not meet the criteria for capitalization. The capital assets list also inappropriately included multiple items grouped under a single tag number on the list, the cost of individual assets divided under multiple tag numbers, and assets misclassified by asset category. In addition, the cost of assets recorded on the list was not always accurate, and the District did not always retain documentation to support the cost. Further, stewardship items on the District's premises were not always included on the stewardship list. Finally, the District's transportation and food service supplies inventory lists did not include all required information, and the District included obsolete items on its transportation supplies inventory list and did not retain the related cost documentation.

### Recommendations

To improve control over its capital assets, stewardship items, and supplies inventories, the District should:

- Prepare and maintain a complete and accurate capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more.
- Assign each asset a tag number, serial number, or other number that specifically identifies the item. Multiple equipment items should not be grouped under a single tag number.
- Maintain its capital assets list by category and ensure that each asset is classified in the appropriate asset category (i.e., land and improvements, buildings and improvements, and equipment).
- Maintain documentation to support the cost of items recorded on the capital assets list.

Instructions for obtaining and documenting capital asset cost are included on USFR pages VI-E-3 through 5.

- Record assets on the capital assets list at actual cost, including ancillary charges necessary to put the asset in its intended location and condition for use.
- Prepare and maintain a stewardship list that includes all district equipment costing between \$1,000 and \$5,000 with a useful life of 1 year or more and update the list at least annually for items acquired, disposed of, or moved.
- Prepare supplies inventory lists annually that include item and unit descriptions, purchase document numbers, quantities on hand, unit costs, extended costs, page totals, and a grand total.
- Retain documentation such as vendor invoices and purchase orders, to support the cost of items recorded on the supplies inventory lists.
- Remove obsolete items from supplies inventory lists and dispose of the items by sale or destruction.

Instructions for performing a physical inventory and preparing an inventory list are included in USFR pages VI-D-4 through 6.

# FINDING 3

## The District's controls over cash receipts should be strengthened

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources and maintains bank accounts to deposit the related receipts. Additionally, the District holds student activities monies in trust and is responsible for the safekeeping and proper use of those monies. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not document student activities and auxiliary operations sales for reconciliation to cash collected. The District also did not prepare a cash collection report or daily sales summary for auxiliary operations cash receipts or use ticket logs or a compensating control at athletic events. Further, the District did not always prepare prenumbered cash receipts and cash receipt summaries for monies received at the District. In addition, the student activities club listing at one school included several funds that were not assigned to a specific student club, and one student club with a negative cash balance. Finally, student activities disbursements were not always properly authorized by or on behalf of the student club, and the District did not prepare a report of student activities cash receipts, disbursements, transfers, and cash balances to submit to the Governing Board monthly.

### Recommendations

To strengthen controls over cash receipts, the District should:

- Issue prenumbered and numerically controlled cash receipt forms or tickets, or count the number of items before and after the sale to document sales for reconciliation to cash collections for student activities and auxiliary operations monies received. For student activities events where it is not practical to issue receipts or otherwise determine the items sold, such as bake sales, clubs should still prepare a cash collection report to document cash collected.
- Prepare prenumbered and numerically controlled cash receipt forms for all monies received at the District. In addition, the District should prepare daily or weekly cash receipts summaries to reconcile the amount of cash received to cash receipts issued.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page SX-G-22 and X-H-21.

- Review the student activities club listing and transfer any nonstudent monies to the appropriate district fund. In addition, the District should close invalid and inactive student club accounts and transfer any remaining balances to the student council.
- Verify that sufficient cash is available in the applicable student club account before authorizing disbursements from the club.
- Ensure that disbursements of monies raised through the efforts of a specific student club are approved by that club in their meeting minutes.
- Prepare a report of student activities cash receipts, disbursements, transfers, and cash balances monthly and submit it to the Governing Board.

# FINDING 4

## The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective, as student entry dates were not always accurate. Additionally, the District did not always enter withdrawal information into its computerized attendance system within 5 working days of the actual withdrawal or retain documentation of when withdrawal information was entered. Also, the District did not correctly report high school students' minutes of attendance.

### Recommendations

To help ensure the accuracy of its student attendance records, the District should:

- Retain accurately completed documentation to support the membership and absence data reported to ADE, including properly completed entry forms, and have a second employee verify that entry dates recorded in the District's computerized attendance system agree with the dates on the entry forms.
- Record entries and withdrawals in its computerized attendance system within 5 working days of the entry or withdrawal and document the dates that the information was entered.
- Record absences for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*. ADE no longer allows districts to report student detail using minutes of attendance.

# FINDING 5

## The District should improve the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that transactions are properly recorded and that its accounting records are accurate and complete. However, the District did not fully accomplish these responsibilities. Specifically, the District did not have adequate control over payroll processing, as employee-leave balances were not accurately tracked and carried forward from one year to the next. Beginning balances and activity for several employees were omitted from leave schedules, and employees' beginning leave balances did not always reconcile to the prior year's ending balances. Further, the District did not always correctly accrue employees' sick leave and did not always classify employees in the appropriate functional classification on the compensated absences schedule. In addition, the District did not always retain supporting documentation for journal entries and ensure that entries were approved by a second employee.

The District did not accurately calculate or monitor employee leave balances.

## Recommendations

To help improve the accuracy of its accounting records, the District should:

- Calculate compensated absence balances based on accurate records of employees' accrual, use, and payout of leave in accordance with district policies.
- Assign a second employee to review and recalculate the compensated absence schedules, including a review of the functional classification of the District's liability for each employee.
- Separate the responsibilities of initiating, approving, and recording journal entries.
- Retain documentation for all journal entries, including explanations, attachments, or references to support the entry, and the signature or initials of the individual making the entry and the official authorized to approve it.